

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 TRSE-00 OMB-01 CIAE-00 DODE-00 PM-03

H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 IGA-01 EB-07 COME-00 MC-02 FEA-01

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R 291412Z JUL 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 9598

C O N F I D E N T I A L CARACAS 7723

EO 11652 GDS

TAGS: MASS, VE

SUBJ: GOV REJECTION OF FMS CREDIT

REF: STATE 162368

1. WITH RESPECT TO PARA 4 OF THE TELEGRAM UNDER REFERENCE, IT IS CONCEIVABLE THAT THE MINISTRY OF DEFENSE DID NOT INITIALLY APPRECIATE HOW FIRM THE FFB POSITION WAS IN VIEW OF THE GOV'S PREVIOUS SUCCESSES IN HAVING SIMILAR LITIGATION CLAUSES STRICKEN FROM FMS CREDIT AGREEMENTS. NEVERTHELESS, THE MINISTER DID TAKE THE ISSUE SERIOUSLY ENOUGH TO CONSULT THE COMPTROLLER GENERAL. THE EMBASSY ONLY BECAME AWARE AFTER THE NEGOTIATIONS THAT THE COMPTROLLER'S REPLY HAD BEEN A FORMAL WRITTEN OPINION RATHER THAN INFORMAL ADVICE. WE THUS ALSO DID NOT FULLY REALIZE UNTIL IT WAS TOO LATE THAT THE PROBLEM WAS NON-NEGOTIABLE. IN ANY CASE, IT IS INCONCEIVABLE THAT THE MINISTRY WOULD MEET THE FFB RECOMMENDATION AT ISSUE IN THE FACE OF A FORMAL OPINION FROM THIS HIGHLY AUTHORITATIVE AND AUTONOMOUS SOURCE.

2. FOLLOWING ARE OUR RESPONSES TO THE QUESTIONS POSED IN PARA 8 OF REFTEL:

(A) THE IMPLICATION IS THAT TREASURY'S POSITION IS IMMUTABLE; THAT ANY FUTURE AGREEMENT MUST INCLUDE THE LITIGATION
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CLAUSE AS SET FORTH IN THIS YEAR'S DRAFT CONTRACT. IT IS NOT CLEAR

TO US WHAT LEGISLATIVE OR OTHER STRICTURES MAKE SUCH A RESTRICTION NECESSARY IN THE CASE OF VENEZUELA, BUT WE HAVE NO DOUBT THAT FURTHER FMS GUARANTEED LOANS SHOULD NOT BE PLANNED IF THERE IS NO PROSPECT FOR A CHANGE IN POSITION ON EITHER SIDE. WE SUSPECT THAT THE COMPTROLLER GENERAL'S POSITION IS NOT SUBJECT TO MODIFICATION BUT CANNOT BE ENTIRELY CERTAIN. IF WE READ THE CONSTITUTION RIGHT, ARTICLE 127 DOES OFFER AN ESCAPE HATCH. THE AMBASSADOR PLANS TO REVIEW THIS ENTIRE EPISODE WITH GENERAL LEAL TORRES AT AN EARLY DATE AND THE POSSIBILITIES FOR A SHIFT ON THE VENEZUELAN SIDE SHOULD THEN BE CLEARER.

(B) THERE IS NO QUESTION HERE THAT THE MOD WAS READY AND ANXIOUS TO SIGN UNTIL BLOCKED BY THE COMPTROLLER'S OBJECTION TO SECTION 5(D).

(C) THE IMPACT OF OUR FAILURE THIS YEAR TO PROVIDE AN FMS LOAN HAS BEEN MITIGATED BY THE FACT THAT THE NEGOTIATIONS FOUNDERED ON A LAST-MINUTE LEGAL PROBLEM. IF ON THE OTHER HAND THERE HAD BEEN NO FMS OFFER, WE BELIEVE THE GOV WOULD HAVE SEEN THAT OMISSION AS FURTHER EVIDENCE OF USG DISCRIMINATION AGAINST VENEZUELA. ARGUMENTS ABOUT THIS COUNTRY'S STRONG FINANCIAL POSITION WOULD PROBABLY HAVE ONLY PRODUCED FURTHER RESENTMENT. NEITHER THE CIVILIAN GOVT NOR THE MILITARY LOOK ON FMS AS "AID," ANY MORE THAN THEY REGARD EXIM CREDITS AS FALLING IN THAT CATEGORY. THEY ARE PREPARED TO ACCEPT NON-CONCESSIONAL TERMS AND RATES OF INTEREST. IT SEEMS LIKELY TO US THAT AN FMS CUT-OFF WOULD BE READ HERE AS RETALIATION FOR GOV ACTIONS IN THE PETROLEUM AREA.

(D) THE PRESIDENT OF THE REPUBLIC PERSONALLY APPROVED THE MOD REQUEST FOR FMS CREDIT AND THE AMOUNTS CONCERNED WOULD HAVE APPEARED PUBLICLY IN SUBSEQUENT BUDGETS. THE QUESTION IS NOT ONE OF CIRCUMVENTING CONGRESSIONAL OPPOSITION. NO VENEZUELAN CONGRESS IS ABOUT TO OPPOSE REASONABLE FINANCING FOR THE ARMED FORCES, WHICH REMAIN IN THE FINAL ARBITERS IN THIS COUNTRY. THE GOV AND ITS DEMOCRATIC OPPOSITION HAVE A VITAL INTEREST IN MAINTAINING THE MORALE OF THE MILITARY AND THE SUGGESTION THAT OUR NORMAL COOPERATION TO THAT END WOULD BE OTHER THAN WELCOME STRIKES US AS MOST CONFIDENTIAL

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IMPLAUSIBLE. THE EFFORT IN THIS PROCEDURE HAS BEEN TO AVOID THE KIND OF EXTENSIVE PUBLIC CONSIDERATION OF THESE MATTERS IN THE CONGRESSIONAL FORUM THAT WOULD PROVIDE TARGETS OF OPPORTUNITY FOR THE EXTREME LEFT. THAT APPROACH APPEARS REASONABLE TO US AND IN THE BEST INTERESTS OF BOTH COUNTRIES.

(E) SEE (A) ABOVE.

(F) WE CAN FIND NO EVIDENCE THAT THE GOV HAS AGREED
TO SUCH CLAUSES IN OTHER LOANS.

3. WE WILL BE CAREFUL TO AVOID ANY SUGGESTION TO THE GOV
THAT FMS CREDIT MIGHT BE AVAILABLE IN FY 1976. IT IS
OUR STRONG VIEW THAT IF THERE IS TO BE NO FMS CREDIT THIS
FISCAL YEAR WE SHOULD SO INFORM THE MOD AND THE GOV
ASAP. THE MOST HARM TO THE RELATIONSHIP WOULD RESULT FROM
ANOTHER PROLONGED APPRAISAL OF THE ISSUE ENDING IN A NEGATIVE
DECISION. AS SOON AS THE AMBASSADOR HAS REVIEWED WITH THE
MIINISTER THE UNHAPPY EVENTS ASSOCIATED WITH THE FY-1975
FMS OFFER, WE WILL MAKE A FINAL RECOMMENDATION ON
FUTURE PLANNING.
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